



Nassau County  
Office of Purchasing

A-40-15

## Staff Summary

Subject: SoftCode CivilServe Software Upgrade (RQT15000161)
Department Office of Purchasing
Department Head Name Frank Intagliata
Department Head Signature 

Date: August 21, 2015
Vendor Name <b>Tyler Technologies</b>
Contract Number <b>A - 40 - 2015</b>
Contract Manager Name Vita Virgilio, Buyer 1

Proposed Legislative Action					
	To	Date	Approval	Info	Other
	Assgn Comm				
	Rules Comm				
	Full Leg				

Internal Approvals			
Date & Init.	Approval	Date & Init.	Approval
	Dept. Head	9/2/15	Counsel to C.E.
	Budget		County Atty.
	Deputy C.E.		County Exec.

### Narrative

**Purpose:** To authorize and award a Purchase Order to Tyler Technologies for the upgrade of the SoftCode CivilServe process software for the Nassau County Correctional Center.

**Discussion:** Tyler Technologies is the sole owner of the SoftCode CivilServe software application including all rights and title to this proprietary system. Tyler Technologies is the only vendor that can license, support and maintain this system for the Nassau County Correctional Center. This purchase order is to upgrade and maintain the present system.

**Past Procurement History:** Tyler Technologies is a responsible vendor who has been doing business with Nassau County since 2005.

**Impact on Funding:** The cost of this purchase order is One Hundred Fifty Two Thousand Six Hundred Dollars (\$152,600.) from General Funds.

**Recommendation:** Office of Purchasing recommends awarding a purchase order to Tyler Technologies as the sole source for this contract.

APPROVED

PURCHASING SECTION

9/2/15

RECEIVED  
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CLERK OF THE LEGISLATURE  
2015 SEP - 2 P 5:02

RULES RESOLUTION

2015

A RESOLUTION AUTHORIZING THE DIRECTOR OF NASSAU COUNTY OFFICE OF PURCHASING TO AWARD AND EXECUTE A CONTRACT BETWEEN THE COUNTY OF NASSAU ACTING ON BEHALF OF NASSAU COUNTY CORRECTIONAL CENTER AND TYLER TECHNOLOGIES.

WHEREAS, the Director is representing to the Rules Committee that the firm, TYLER TECHNOLOGIES is a sole source provider and meets all specifications for the product described in the said contract as determined by the Director of the Office of Purchasing.

RESOLVED, that the Rules Committee of the Nassau County Legislature authorizes the Director, Office of Purchasing to award and execute the said Purchase Order with TYLER TECHNOLOGIES.

6. List all affiliated and related companies and their relationship to the firm entered on line 1. above (if none, enter "None"). Attach a separate disclosure form for each affiliated or subsidiary company that may take part in the performance of this contract. Such disclosure shall be updated to include affiliated or subsidiary companies not previously disclosed that participate in the performance of the contract.

None

7. List all lobbyists whose services were utilized at any stage in this matter (i.e., pre-bid, bid, post-bid, etc.). The term "lobbyist" means any and every person or organization retained, employed or designated by any client to influence - or promote a matter before - Nassau County, its agencies, boards, commissions, department heads, legislators or committees, including but not limited to the Open Space and Parks Advisory Committee and Planning Commission. Such matters include, but are not limited to, requests for proposals, development or improvement of real property subject to County regulation, procurements, or to otherwise engage in lobbying as the term is defined herein. The term "lobbyist" does not include any officer, director, trustee, employee, counsel or agent of the County of Nassau, or State of New York, when discharging his or her official duties.

(a) Name, title, business address and telephone number of lobbyist(s):

None

Page 4 of 4:

**The term lobbying shall mean any attempt to influence:** any determination made by the Nassau County Legislature, or any member thereof, with respect to the introduction, passage, defeat, or substance of any local legislation or resolution; any determination by the County Executive to support, oppose, approve or disapprove any local legislation or resolution, whether or not such legislation has been introduced in the County Legislature; any determination by an elected County official or an officer or employee of the County with respect to the procurement of goods, services or construction, including the preparation of contract specifications, including but not limited to the preparation of requests for proposals, or solicitation, award or administration of a contract or with respect to the solicitation, award or administration of a grant, loan, or agreement involving the disbursement of public monies; any determination made by the County Executive, County Legislature, or by the County of Nassau, its agencies, boards, commissions, department heads or committees, including but not limited to the Open Space and Parks Advisory Committee, the Planning Commission, with respect to the zoning, use, development or improvement of real property subject to County regulation, or any agencies, boards, commissions, department heads or committees with respect to requests for proposals, bidding, procurement or contracting for services for the County; any determination made by an elected county official or an officer or employee of the county with respect to the terms of the acquisition or disposition by the county of any interest in real property, with respect to a license or permit for the use of real property of or by the county, or with respect to a franchise, concession or revocable consent; the proposal, adoption, amendment or rejection by an agency of any rule having the force and effect of law; the decision to hold, timing or outcome of any rate making proceeding before an agency; the agenda or any determination of a board or commission; any determination regarding the calendaring or scope of any legislature oversight hearing; the issuance, repeal, modification or substance of a County Executive Order; or any determination made by an elected county official or an officer or employee of the county to support or oppose any state or federal legislation, rule or regulation, including any determination made to support or oppose that is contingent on any amendment of such legislation, rule or regulation, whether or not such legislation has been formally introduced and whether or not such rule or regulation has been formally proposed.

# TYLER TECHNOLOGIES INC

## FORM 10-K (Annual Report)

Filed 02/18/15 for the Period Ending 12/31/14

Address	5101 TENNYSON PKWY PLANO, TX 75024
Telephone	9727133700
CIK	0000860731
Symbol	TYL
SIC Code	7372 - Prepackaged Software
Industry	Software & Programming
Sector	Technology
Fiscal Year	12/31

TYLER TECHNOLOGIES, INC.  
FORM 10-K  
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expected to expand from \$2.0 billion in 2015 to \$2.5 billion in 2018 while professional services and support are expected to grow from \$2.4 billion in 2015 to \$2.7 billion in 2018.

## PRODUCTS AND SERVICES

We provide a comprehensive and flexible suite of products and services that addresses the information technology needs of cities, counties, schools and other local government entities. We derive our revenues from five primary sources:

- sales of software licenses and royalties;
- subscription-based arrangements;
- software services;
- maintenance and support; and
- appraisal services.

We design, develop and market a broad range of software solutions to serve mission-critical “back-office” functions of local governments. Many of our software applications include Internet-accessible solutions that allow for real-time public access to a variety of information or that allow the public to transact business with local governments via the Internet. Our software solutions and services are generally grouped in five major areas:

- Financial Management and Education;
- Courts and Justice;
- Property Appraisal and Tax;
- Planning, Regulatory and Maintenance; and
- Land and Vital Records Management.

Each of our core software systems consists of several fully integrated applications. For clients who acquire the software for use in-house, we generally license our systems under standard perpetual license agreements that provide the client with a fully paid, nonexclusive, nontransferable right to use the software. In some of the product areas, such as financial management and education and property appraisal and tax, we offer multiple solutions designed to meet the needs of different sized governments.

We also offer SaaS arrangements, which utilize the Tyler private cloud, for clients who do not wish to maintain, update and operate these systems or to make up-front capital expenditures to implement these advanced technologies. For these clients, we deliver our software using the SaaS model — the software and client data are hosted at our data centers or at third-party locations, and clients typically sign multi-year contracts for these subscription-based services.

Historically, we have had a greater proportion of our annual revenues in the second half of our fiscal year due to governmental budget and spending cycles and the timing of system implementations for clients desiring to “go live” at the beginning of the calendar year.

A description of our suites of products and services follows:

### Software Licenses

#### *Financial Management and Education*

Our financial management and education solutions are enterprise resource planning systems for local governments, which integrate information across all facets of a client organization. Our financial management solutions include modular fund accounting systems that can be tailored to meet the needs of virtually any government agency or not-for-profit entity. Our financial management systems include modules for general ledger, budget preparation, fixed assets, requisitions, purchase orders, bid management, accounts payable, contract management, accounts receivable, investment management, inventory control, project and grant accounting, work orders, job costing, GASB reporting, payroll and human resources. All of our financial management systems are intended to conform to government auditing and financial reporting requirements and generally accepted accounting principles.

We sell utility billing systems that support the billing and collection of metered and non-metered services, along with multiple billing cycles. Our Web-enabled utility billing solutions allow clients to access information online such as average consumption and transaction history. In addition, our systems can accept secured Internet payments via credit cards and checks.

### *Property Appraisal and Tax*

We provide systems and software that automate the appraisal and assessment of real and personal property, including record keeping, mass appraisal, inquiry and protest tracking, appraisal and tax roll generation, tax statement processing, and electronic state-level reporting. These systems are image and video-enabled to facilitate the storage of and access to the many property-related documents and for the online storage of digital photographs of properties for use in defending values in protest situations. Other related tax applications are available for agencies that bill and collect taxes, including cities, counties, school tax offices, and special taxing and collection agencies. These systems support billing, collections, lock box operations, mortgage company electronic payments, and various reporting requirements.

### *Planning, Regulatory and Maintenance*

Our planning, regulatory and maintenance software solutions are designed for public sector agencies such as, community development, planning, building, code enforcement, tax and revenues, public works, transportation, land control, environmental, fire safety, storm water management, regulatory controls and engineering. These solutions help public sector agencies better manage their day-to-day business functions while streamlining and automating the many aspects of their land management, permitting and planning systems. Our mobile solutions extend automation to the field and Web access brings online services to citizens 24 hours a day, 365 days a year.

### *Land and Vital Records Management*

We also offer a number of specialized software applications designed to help county governments enhance and automate courthouse operations. These systems record, scan and index information for the many documents maintained at the courthouse, such as deeds, mortgages, liens, UCC financing statements and vital records (birth, death and marriage certificates). These applications include fully integrated imaging systems with batch and scan processing capabilities and fully integrated receipting and cashiering systems, as well as, Web-enabled public access.

### Subscription-Based Services

Subscription-based revenue is primarily derived from our SaaS arrangements, which utilize the Tyler private cloud, as well as our transaction based offerings such as e-filing solutions.

We are able to provide the majority of our software products through our SaaS model. The clients who choose this model typically do not wish to maintain, update and operate these systems or make up-front capital expenditures to implement these advanced technologies. The contract terms for these arrangements range from one to 10 years, but are typically contracted for a period of three to six years. The majority of our SaaS or hosting arrangements include additional professional services as well as maintenance and support services. In certain arrangements, the client may also acquire a license to the software.

As part of our subscription-based services, we provide e-filing solutions that simplify the filing and management of court related documents for courts and law offices. Revenues for e-filing are included in subscription-based revenues, and are derived from transaction fees and in some cases fixed fee arrangements.

### Software Services

We provide a variety of professional IT services to clients who utilize our software products. Virtually all of our clients contract with us for installation, training, and data conversion services in connection with their purchase of Tyler's software solutions. The complete implementation process for a typical system includes planning, design, data conversion, set-up and testing. At the culmination of the implementation process, an installation team travels to the client's facility to ensure the smooth transfer of data to the new system. Installation fees are charged separately to clients on either a fixed-fee or hourly charge basis, depending on the contract.

Both in connection with the installation of new systems and on an ongoing basis, we provide extensive training services and programs related to our products and services. Training can be provided in our training centers, onsite at clients' locations, or at meetings and conferences, and can be customized to meet a clients' requirements. The vast majority of our clients contract with us for training services, both to improve their employees' proficiency and productivity and to fully utilize the functionality of our systems. Training services are generally billed on an hourly or daily basis, along with travel and other expenses.



via the Internet. We believe that the addition of such features enhances the market appeal of our core products. Since 2001, we have also offered software products as SaaS solutions, which we believe, will, over time, have increasing appeal to local governments and will comprise a larger percentage of our new business mix. In addition, we have also broadened our offerings of consulting and business process reengineering services.

- Expand our client base. We seek to establish long-term relationships with new clients primarily through our sales and marketing efforts. While we currently have clients in all 50 states, Canada, the Caribbean, the United Kingdom, and other international locations, not all of our solutions have achieved nationwide geographic penetration. We intend to continue to expand into new geographic markets by adding sales staff and targeting marketing efforts by solutions in those areas. We also intend to continue to expand our customer base to include more large governments. While our traditional market focus has primarily been on small and mid-sized governments, our increased size and market presence, together with the technological advances and improved scalability of certain of our solutions, are allowing us to achieve increasing success in selling to larger clients.
- Expand our existing client relationships. Our existing customer base offers significant opportunities for additional sales of solutions and services that we currently offer, but that existing clients do not fully utilize. Add-on sales to existing clients typically involve lower sales and marketing expenses than sales to new clients.
- Grow recurring revenues. We have a large recurring revenue base from maintenance and support and subscription-based services, which generated revenues of \$300.5 million, or 61% of total revenues, in 2014. We have historically experienced very low customer turnover (approximately 2% annually) and recurring revenues continue to grow as the installed customer base increases. In addition, subscription-based revenues have been our fastest growing revenue category over the past five years, increasing from \$23.3 million in 2010 to \$87.8 million in 2014.
- Maximize economies of scale and take advantage of financial leverage in our business. We seek to build and maintain a large client base to create economies of scale, enabling us to provide value-added products and services to our clients while expanding our operating margins. Because we sell primarily "off-the-shelf" software, increased sales of the same solutions result in incrementally higher gross margins. In addition, we believe that we have a marketing and administrative infrastructure in place that can be leveraged to accommodate significant long-term growth without proportionately increasing selling, general and administrative expenses.
- Attract and retain highly qualified employees. We believe that the depth and quality of our operations management and staff is one of our significant strengths, and that the ability to retain such employees is crucial to our continued growth and success. We believe that our stable management team, financial strength and growth opportunities, as well as our leadership position in the local government market, enhance our attractiveness as an employer for highly skilled employees.
- Pursue selected strategic acquisitions. While we expect to primarily grow internally, from time to time we selectively pursue strategic acquisitions that provide us with one or more of the following:
  - ☐ new products and services to complement our existing offerings;
  - ☐ entry into new markets related to local governments; and
  - ☐ new clients and/or geographic expansion.
- Establish strategic alliances. In January 2007, we announced a strategic alliance with Microsoft Corporation to jointly develop core public sector functionality for Microsoft Dynamics AX to address the unique accounting needs of public sector organizations worldwide. As part of this alliance, we are enhancing Microsoft Dynamics AX with public sector-specific functionality. The arrangement has broadened the functionality of Microsoft Dynamics AX, providing both Tyler and Microsoft with a public sector accounting platform to support their existing and prospective clients well into the future. Microsoft Dynamics AX with public sector functionality was released to the market in August 2011 and is being sold in the United States and internationally through Microsoft's distribution channels. Tyler is also an authorized Microsoft reseller for the Microsoft Dynamics solutions developed under this arrangement, and we are selling the solutions directly into the government market. Tyler receives license and maintenance royalties on direct and indirect public-sector sales worldwide of the solutions co-developed under this multi-year term relationship.

On February 4, 2015, we announced that our contractual research and development commitment to develop public sector functionality for Microsoft Dynamics AX expires with the release of Dynamics AX 7. We do not anticipate continuing any research and development commitment, although we will continue to provide sustained engineering and technical support for the public sector functionality within Dynamics AX. We further expect that license and maintenance royalties for all applicable domestic and international sales of Dynamics AX to public sector entities will continue under the terms of the contract.

## EMPLOYEES

At December 31, 2014, we had 2,856 employees. Appraisal outsourcing projects are cyclical in nature and can be widely dispersed geographically. We often hire temporary employees to assist in these projects whose term of employment generally ends with the project's completion. None of our employees are represented by a labor union or are subject to collective bargaining agreements. We consider our relations with our employees to be positive.

## INTERNET WEBSITE AND AVAILABILITY OF PUBLIC FILINGS

We file annual, quarterly, current and other reports, proxy statements and other information with the Securities and Exchange Commission, or SEC, pursuant to the Securities Exchange Act. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and other information statements, and other information regarding issuers, including us, that file electronically with the SEC. The address of this site is <http://www.sec.gov>.

We also maintain a website at [www.tylertech.com](http://www.tylertech.com). We make available free of charge through this site our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Forms 4 and 5, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition, copies of our annual report will be made available, free of charge upon written request.

Our "Code of Business Conduct and Ethics" is also available on our website. We intend to satisfy the disclosure requirements regarding amendments to, or waivers from, a provision of our Code of Business Conduct and Ethics by posting such information on our website.

## ITEM 1A. RISK FACTORS.

An investment in our common stock involves a high degree of risk. Investors evaluating our company should carefully consider the factors described below and all other information contained in this Annual Report. Any of the following factors could materially harm our business, operating results, and financial condition. Additional factors and uncertainties not currently known to us or that we currently consider immaterial could also harm our business, operating results, and financial condition. This section should be read in conjunction with the Financial Statements and related Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report. We may make forward-looking statements from time to time, both written and oral. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements. Our actual results may differ materially from those projected in any such forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report.

### *Risks Associated with Selling Products and Services into the Public Sector Marketplace*

*A prolonged economic slowdown could harm our operations.*

A prolonged economic slowdown or recession could reduce demand for our software products and services. Local and state governments may face financial pressures that could in turn affect our growth rate and profitability in the future. There is no assurance that local and state spending levels will be unaffected by declining or stagnant general economic conditions, and if budget shortfalls occur, they may negatively impact local and state information technology ("IT") spending and could adversely affect our business.

*Selling products and services into the public sector poses unique challenges.*

We derive substantially all of our revenues from sales of software and services to state, county, and city governments, other municipal agencies, and other public entities. We expect that sales to public sector clients will continue to account for substantially all of our revenues in the future. We face many risks and challenges associated with contracting with governmental entities, including:

- resource limitations caused by budgetary constraints, which may provide for a termination of executed contracts due to a lack of future funding;
- long and complex sales cycles;
- contract payments at times being subject to achieving implementation milestones, and we may have differences with clients as to whether milestones have been achieved;
- political resistance to the concept of contracting with third-parties to provide IT solutions;
- legislative changes affecting local government's authority to contract with third-parties;

*Fixed-price contracts may affect our profits.*

Some of our contracts are on a fixed-priced basis, which can lead to various risks, including:

- the failure to accurately estimate the resources and time required for an engagement;
- the failure to effectively manage our clients' expectations regarding the scope of services delivered for a fixed fee; and
- the failure to timely and satisfactorily complete fixed-price engagements within budget.

If we do not adequately assess these and other risks, we may be subject to cost overruns and penalties, which may harm our financial performance.

*Changes in the insurance markets may affect our business.*

Some of our clients, primarily those for our property appraisal services, require that we secure performance bonds before they will select us as their vendor. In addition, we have in the past been required to provide letters of credit as security for the issuance of a performance bond. We cannot guarantee that we will be able to secure such performance bonds in the future on terms that are favorable to us, if at all. Our inability to obtain performance bonds on favorable terms or at all could impact our future ability to win some contract awards, particularly large property appraisal services contracts, which could negatively impact revenues. In addition, the general insurance markets experience volatility, which may lead to future increases in our general and administrative expenses and negatively impact our operating results.

### ***Risks Associated with Our Software Products***

*We run the risk of errors or defects with new products or enhancements to existing products.*

Our software products are complex and may contain errors or defects, especially when first introduced or when new versions or enhancements are released. Although we have not experienced material adverse effects from any such defects or errors to date, we cannot assure you that material defects and errors will not be found in the future. Any such defects could result in a loss of revenues or delay market acceptance. Our license agreements typically contain provisions designed to limit our exposure to potential liability. However, it is possible we may not always successfully negotiate such provisions in our client contracts or the limitation of liability provisions may not be effective due to existing or future federal, state, or local laws, ordinances, or judicial decisions. Although we maintain errors and omissions and general liability insurance, and we try to structure contracts to limit liability, we cannot assure you that a successful claim could not be made or would not have a material adverse effect on our future operating results.

*Cyber-attacks and security vulnerabilities can disrupt our business and harm our competitive position.*

Threats to IT security can take a variety of forms. Individuals and groups of hackers, and sophisticated organizations including state-sponsored organizations, may take steps that pose threats to our clients and our IT. They may develop and deploy malicious software to attack our products and services and gain access to our networks and data centers, or act in a coordinated manner to launch distributed denial of service or other coordinated attacks. Cyber threats are constantly evolving, thereby increasing the difficulty of detecting and successfully defending against them. Cyber threats can have cascading impacts that unfold with increasing speed across our internal networks and systems and those of our partners and clients. Breaches of our network or data security could disrupt the security of our internal systems and business applications, impair our ability to provide services to our clients and protect the privacy of their data, result in product development delays, compromise confidential or technical business information harming our competitive position, result in theft or misuse of our intellectual property or other assets, require us to allocate more resources to improved technologies, or otherwise adversely affect our business. Our business policies and internal security controls may not keep pace with these evolving threats.

*We cannot fully protect client information from security breaches.*

As we continue to grow the number and scale of our cloud-based offerings, we store and process increasingly large amounts of personally identifiable and other confidential information of our clients. The continued occurrence of high-profile data breaches provides evidence of an external environment increasingly hostile to information security. Despite our efforts to improve security controls, it is possible our security controls over personal data, our training of employees on data security, and other practices we follow may not prevent the improper disclosure of client data that we store and manage. Improper disclosure could harm our reputation, lead to legal exposure to clients, or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue.

### *Risks Associated with Our Periodic Results and Stock Price*

*Software revenue recognition rules may require us to delay revenue recognition into future periods.*

We have in the past had to, and may in the future be required to, defer revenue recognition for software license fees due to several factors, including whether:

- license agreements include applications that are under development or other undelivered elements;
- client contracts require the delivery of services considered essential to the functionality of the software, including significant modifications, customization, or complex interfaces, that could delay product delivery or acceptance;
- the transaction involves acceptance criteria;
- the transaction involves contingent payment terms or fees;
- we are required to accept a fixed-fee services contract; or
- we are required to provide extended payment terms.

Because of these factors and other specific requirements for software revenue recognition under generally accepted accounting principles in the United States, we must have very precise terms in our contracts to recognize revenue upon the delivery and installation of our software or performance of services. Negotiation of mutually acceptable terms and conditions may extend the sales cycle. We are not always able to negotiate terms and conditions that permit revenue recognition at the time of delivery or even upon project completion.

*Fluctuations in quarterly revenue could adversely impact our operating results and stock price.*

Our revenues and operating results are difficult to predict and may fluctuate substantially from quarter to quarter for a variety of reasons, including the following:

- prospective clients' contracting decisions are often made in the last few weeks of a quarter;
- the size of license transactions can vary significantly;
- clients may unexpectedly postpone or cancel procurement processes due to changes in strategic priorities, project objectives, budget, or personnel;
- client purchasing processes vary significantly and a client's internal approval, expenditure authorization, and contract negotiation processes can be difficult and time consuming to complete, even after selection of a vendor;
- the number, timing, and significance of software product enhancements and new software product announcements by us and our competitors may affect purchase decisions;
- we may have to defer revenues under our revenue recognition policies; and
- clients may elect subscription-based arrangements, which result in lower software license revenues in the initial year as compared to traditional, on-premise software license arrangements, but generate higher overall subscription-based revenues over the term of the contract.

In each fiscal quarter, our expense levels, operating costs, and hiring plans are based to some extent on projections of future revenues and are relatively fixed. If our actual revenues fall below expectations, we could experience a reduction in operating results. Also, if actual revenues for any given quarter fall below expectations, it may lead to a decline in our stock price.

*Increases in service revenue as a percentage of total revenues could decrease overall margins.*

We realize lower margins on software and appraisal service revenues than on license revenue. The majority of our contracts include both software licenses and software services. Therefore, an increase in the percentage of software service and appraisal service revenue compared to license revenue could have a detrimental impact on our overall gross margins and could adversely affect operating results.

our continued success will depend in large part upon our ability to attract, integrate, and retain such personnel. We have at times experienced and continue to experience difficulty in recruiting qualified personnel. Competition for qualified software development, sales, and other personnel is intense, and we cannot assure you that we will be successful in attracting and retaining such personnel.

*Compliance with changing regulation of corporate governance may result in additional expenses.*

Changing laws, regulations, and standards relating to corporate governance and public disclosure can create uncertainty for public companies. The costs required to comply with such evolving laws are difficult to predict. To maintain high standards of corporate governance and public disclosure, we intend to invest all reasonably necessary resources to comply with evolving standards. This investment may result in an unforeseen increase in general and administrative expenses and a diversion of management's time and attention from revenue-generating activities, which may harm our operating results.

*We don't foresee paying dividends on our common stock.*

We have not declared or paid a cash dividend since we entered the business of providing software solutions and services to the public sector in 1998. We intend to retain earnings for use in the operation and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future.

*Provisions in our certificate of incorporation, bylaws, and Delaware law could deter takeover attempts.*

Our board of directors may issue up to 1,000,000 shares of preferred stock and may determine the price, rights, preferences, privileges, and restrictions, including voting and conversion rights, of these preferred shares. These determinations may be made without any further vote or action by our stockholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may make it more difficult for a third-party to acquire a majority of our outstanding voting stock. In addition, some provisions of our Certificate of Incorporation, Bylaws, and the Delaware General Corporation Law could also delay, prevent, or make more difficult a merger, tender offer, or proxy contest involving us.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

#### ITEM 2. PROPERTIES.

We occupy approximately 617,000 square feet of office space, of which 353,000 square feet is in office facilities we own. We own or lease offices for our major operations in Arizona, Colorado, Georgia, Iowa, Maine, Montana, New York, Ohio, Texas and Washington.

#### ITEM 3. LEGAL PROCEEDINGS.

Other than routine litigation incidental to our business, there are no material legal proceedings pending to which we are party or to which any of our properties are subject.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

As of December 31, 2014, we had authorization to repurchase up to 1.4 million additional shares of Tyler common stock . During 2014, we purchased approximately 294,000 shares of our common stock for an aggregate purchase price of \$22.8 million. A summary of the repurchase activity during 2014 is as follows:

Period	Total number of shares repurchased	Average price paid per share	Maximum number of shares that may be repurchased under current authorization
Three months ended March 31	—	\$ —	1,700,000
Three months ended June 30	294,000	77.54	1,406,000
Three months ended September 30	—	—	1,406,000
Three months ended December 31	—	—	1,406,000
	<u>294,000</u>		

The repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended at various times from 2003 through 2011. There is no expiration date specified for the authorization and we intend to repurchase stock under the plan from time to time.

ITEM 6. SELECTED FINANCIAL DATA.  
(In thousands, except per share data)

	FOR THE YEARS ENDED DECEMBER 31,				
	2014	2013	2012	2011	2010
<b>STATEMENT OF OPERATIONS DATA:</b>					
Revenues	\$ 493,101	\$ 416,643	\$ 363,304	\$ 309,391	\$ 288,628
Cost and expenses:					
Cost of revenues	259,730	223,440	195,602	167,479	160,311
Selling, general and administrative expenses	108,260	98,289	86,706	75,650	69,480
Research and development expense	25,743	23,269	20,140	16,414	13,971
Amortization of customer and trade name intangibles	4,546	4,517	4,279	3,331	3,225
Operating income	94,822	67,128	56,577	46,517	41,641
Other expenses, net	355	1,309	2,709	2,404	1,742
Income from operations before income taxes	94,467	65,819	53,868	44,113	39,899
Income tax provision	35,527	26,718	20,874	16,556	14,845
Net income	58,940	39,101	32,994	27,557	25,054
Net income per diluted share	\$ 1.66	\$ 1.13	\$ 1.00	\$ 0.83	\$ 0.71
Weighted average diluted shares	35,401	34,590	32,916	33,154	35,528
<b>STATEMENT OF CASH FLOWS DATA:</b>					
Cash flows provided by operating activities	\$ 123,437	\$ 66,090	\$ 58,668	\$ 56,435	\$ 35,350
Cash flows used by investing activities	(11,555)	(25,658)	(34,736)	(28,809)	(8,694)
Cash flows provided (used) by financing activities	15,409	32,038	(18,852)	(28,414)	(34,238)
<b>BALANCE SHEET DATA:</b>					
Total assets	\$ 573,982	\$ 444,488	\$ 338,666	\$ 295,391	\$ 264,032
Revolving line of credit	—	—	18,000	60,700	26,500
Shareholders' equity	336,973	246,319	145,299	78,110	106,972

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS

This document contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical in nature and typically address future or anticipated events, trends, expectations or beliefs with respect to our financial condition, results of operations or business. Forward-looking statements often contain words such as "believes," "expects," "anticipates," "foresees," "forecasts," "estimates," "plans," "intends," "continues," "may," "will," "should," "projects," "might," "could" or other similar words or phrases. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. We believe there is a reasonable basis for our forward-looking statements, but they are inherently subject to risks and uncertainties and actual results could differ materially from the expectations and beliefs reflected in the forward-looking statements. We presently consider the following to be among the important factors that could cause actual results to differ materially from our expectations and beliefs: (1) changes in the budgets or regulatory environments of our clients, primarily local and state governments, that could negatively impact information technology spending; (2) our ability to protect client information from security breaches and provide uninterrupted operations of data centers; (3) material portions of our business require the Internet infrastructure to be adequately maintained; (4) our ability to achieve our financial forecasts due to various factors, including project delays by our clients, reductions in transaction size, fewer transactions, delays in delivery of new products or releases or a decline in our renewal rates for service agreements; (5) general economic, political and market conditions; (6) technological and market risks associated with the development of new products or services or of new versions of existing or acquired products or services; (7) our ability to successfully achieve growth or operational synergies through the integration of acquired businesses, while avoiding unanticipated costs and disruptions to existing operations; (8) competition in the industry in which we conduct business and the impact of competition on pricing, client retention and pressure for new products or services; (9) the ability to attract and retain qualified personnel and dealing with the loss or retirement of key members of management or other key personnel; and (10) costs of compliance and any failure to comply with government and stock exchange regulations. A detailed discussion of these factors and other risks that affect our business are described in Item 1A, "Risk Factors." We expressly disclaim any obligation to publicly update or revise our forward-looking statements.

## New Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This ASU is the result of a convergence project between the FASB and the International Accounting Standards Board. The core principle behind ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and services. This model involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction prices to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies the performance obligations. The guidance in the ASU supersedes existing revenue recognition guidance and is effective for annual reporting periods beginning after December 15, 2016 with early application not permitted. The ASU allows two methods of adoption; a full retrospective approach where three years of financial information are presented in accordance with the new standard, and a modified retrospective approach where the ASU is applied to the most current period presented in the financial statements. We are currently assessing the financial impact of adopting the new standard and the methods of adoption; however, given the scope of the new standard, we are currently unable to provide a reasonable estimate regarding the financial impact or which method of adoption of the new standard we will elect.

## Outlook

We believe activity in the local government market is good and has returned to normal, pre-recession levels. Although we expect to see some pressure on margin expansion in 2015 as we absorb onboarding costs associated with staffing additions in recent quarters, make some strategic incremental product investments, and continue to grow our SaaS and e-filing client bases, our expectation is that 2015 will be another year of very solid revenue and earnings growth.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues, cost of revenues and expenses during the reporting period, and related disclosure of contingencies. The Notes to the Financial Statements included as part of this Annual Report describe our significant accounting policies used in the preparation of the financial statements. Significant items subject to such estimates and assumptions include the application of the percentage-of-completion and proportional performance methods of revenue recognition, the carrying amount and estimated useful lives of intangible assets, determination of share-based compensation expense and valuation allowance for receivables. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies require significant judgments and estimates used in the preparation of our financial statements:

*Revenue Recognition.* We recognize revenues in accordance with the provisions of Accounting Standards Codification ("ASC") 605, Revenue Recognition and ASC 985-605, Software Revenue Recognition. Our revenues are derived from sales of software licenses and royalties, subscription-based services, appraisal services, maintenance and support, and services that typically range from installation, training and basic consulting to software modification and customization to meet specific customer needs. For multiple element software arrangements, which do not entail the performance of services that are considered essential to the functionality of the software, we generally record revenue when the delivered products or performed services result in a legally enforceable and non-refundable claim. We maintain allowances for doubtful accounts and sales adjustments, which are provided at the time the revenue is recognized. Because most of our customers are governmental entities, we rarely incur a loss resulting from the inability of a customer to make required payments. In a limited number of cases, we encounter a customer who is dissatisfied with some aspect of the software product or our service, and we may offer a "concession" to such customer. In those limited situations where we grant a concession, we rarely reduce the contract arrangement fee, but alternatively may perform additional services, such as additional training or creating additional custom reports. These amounts have historically been nominal. In connection with our customer contracts and the adequacy of related allowances and measures of progress towards contract completion, our project managers are charged with the responsibility to continually review the status of each customer on a specific contract basis. Also, we review, on at least a quarterly basis, significant past due accounts receivable and the adequacy of related reserves. Events or changes in circumstances that indicate that the carrying amount for the allowances for doubtful accounts and sales adjustments may require revision, include, but are not limited to, deterioration of a customer's financial condition, failure to manage our customer's



inherently uncertain. We evaluate the reasonableness of the fair value calculations of our reporting units by comparing the total of the fair value of all of our reporting units to our total market capitalization.

Our annual goodwill impairment analysis, which we performed quantitatively during the second quarter of 2014, did not result in an impairment charge. During 2014, we did not identify any triggering events that would require an update to our annual impairment review.

All intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of other intangible assets is measured by comparison of the carrying amount to estimated undiscounted future cash flows. The assessment of recoverability or of the estimated useful life for amortization purposes will be affected if the timing or the amount of estimated future operating cash flows is not achieved. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and reductions in growth rates. In addition, products, capabilities, or technologies developed by others may render our software products obsolete or non-competitive. Any adverse change in these factors could have a significant impact on the recoverability of goodwill or other intangible assets.

*Share-Based Compensation.* We have a stock option plan that provides for the grant of stock options to key employees, directors and non-employee consultants. We estimate the fair value of share-based awards on the date of grant using the Black-Scholes option valuation model. Share-based compensation expense includes the estimated effects of forfeitures, which will be adjusted over the requisite service period to the extent actual forfeitures differ, or are expected to differ from such estimates. Changes in estimated forfeitures are recognized in the period of change and will also impact the amount of expense to be recognized in future periods. Forfeiture rate assumptions are derived from historical data. We estimate stock price volatility at the date of grant based on the historical volatility of our common stock. Estimated option life is determined using the weighted-average period the stock options are expected to be outstanding based primarily on the options' vesting terms, remaining contractual life and the employees' expected exercise based on historical patterns. Determining the appropriate fair-value model and calculating the fair value of share-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates.

revenue over the term of the contract. Our new client mix in 2014 was approximately 74% selecting perpetual software license arrangements and approximately 26% selecting subscription-based arrangements compared to a client mix in 2013 of approximately 68% selecting perpetual software license arrangements and approximately 32% selecting subscription-based arrangements. 138 new clients entered into subscription-based software arrangements in 2014 compared to 100 new clients in 2013.

#### *Subscriptions.*

The following table sets forth a comparison of our subscriptions revenue for the years ended December 31:

(\$ in thousands)	2014	2013	Change	
			\$	%
ESS	\$ 84,322	\$ 59,070	\$ 25,252	43 %
ATSS	3,526	2,794	732	26
Total subscriptions revenue	<u>\$ 87,848</u>	<u>\$ 61,864</u>	<u>\$ 25,984</u>	<u>42 %</u>

Subscription-based services revenue primarily consists of revenue derived from our SaaS arrangements, which utilize the Tyler private cloud. As part of our subscription-based services, we also provide electronic document filing solutions ("e-filing") that simplify the filing and management of court related documents for courts and law offices. E-filing revenue is derived from transaction fees and fixed fee arrangements.

Subscription-based services revenue increased 42% compared to 2013. E-filing services contributed approximately \$13.3 million of the subscriptions revenue increase in 2014. Most of the e-filing revenue increase related to higher revenue from a contract with the Texas Office of Court Administration for our Odyssey File and Serve e-filing system for Texas courts ("eFileTexas.gov") for civil court filings. The state of Texas has mandated all counties use eFileTexas.gov and this contract, which took effect in September 2013, provided a recurring revenue stream that totaled \$17.0 million in 2014 and is expected to total approximately \$19.0 million in 2015. New SaaS clients as well as existing clients who converted to our SaaS model provided the remainder of the subscriptions revenue increase. In 2014, we added 138 new SaaS clients and 59 existing clients elected to convert to our SaaS model.

#### *Software services.*

The following table sets forth a comparison of our software services revenue for the years ended December 31:

(\$ in thousands)	2014	2013	Change	
			\$	%
ESS	\$ 104,146	\$ 85,459	\$ 18,687	22 %
ATSS	9,675	7,808	1,867	24
Total software services revenue	<u>\$ 113,821</u>	<u>\$ 93,267</u>	<u>\$ 20,554</u>	<u>22 %</u>

Software services revenue primarily consists of professional services billed in connection with installing our software, converting client data, training client personnel, consulting and custom software development. New clients who purchase our proprietary software licenses generally also contract with us to provide for the related software services. Existing clients also periodically purchase additional training, consulting and minor programming services. Software services grew 22% in 2014 mainly due to much higher revenue from new proprietary software arrangements, slightly higher rates on certain services and additions to our professional services staff which increased our capacity to deliver backlog.

#### *Maintenance.*

The following table sets forth a comparison of our maintenance revenue for the years ended December 31:

(\$ in thousands)	2014	2013	Change	
			\$	%
ESS	\$ 195,881	\$ 175,180	\$ 20,701	12 %
ATSS	16,815	16,540	275	2
Total maintenance revenue	<u>\$ 212,696</u>	<u>\$ 191,720</u>	<u>\$ 20,976</u>	<u>11 %</u>

*Appraisal services.* Appraisal services revenue is approximately 4% of total revenue. The appraisal services gross margin increased slightly compared to 2013. A high proportion of the costs of appraisal services revenue are variable, as we often hire temporary employees to assist in appraisal projects, whose term of employment generally ends with the projects' completion.

Our blended gross margin for 2014 increased 0.9% from 2013. The gross margin increase was mainly due to a revenue mix that included more software license revenue and subscription revenue and in particular, increased revenue from e-filing in Texas. This improvement in gross margin was offset somewhat by expenses associated with increased hiring of implementation, development and support staff in order to expand our capacity to implement our contract backlog.

#### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses consist primarily of salaries, employee benefits, travel, share-based compensation expense, commissions and related overhead costs for administrative and sales and marketing employees, as well as, professional fees, trade show activities, advertising costs and other marketing related costs. The following table sets forth a comparison of our SG&A expenses for the following years ended December 31:

(\$ in thousands)	2014	2013	Change	
			\$	%
Selling, general and administrative expenses	\$ 108,260	\$ 98,289	\$ 9,971	10 %

SG&A as a percentage of revenue was 22.0% in 2014 compared to 23.6% in 2013. Approximately one-third of the SG&A expense increase is from higher commission expense due to sales growth. Stock compensation expense contributed approximately one-quarter of the increase primarily due to increases in our stock price. The remaining increase consisted of higher bonuses related to operating results, annual wage adjustments and increased travel related expenses.

#### Research and Development Expense

Research and development expense consists primarily of salaries, employee benefits and related overhead costs associated with product development. The following table sets forth a comparison of our research and development expense for the years ended December 31:

(\$ in thousands)	2014	2013	Change	
			\$	%
Research and development expense	\$ 25,743	\$ 23,269	\$ 2,474	11 %

Research and development expense consist mainly of costs associated with development of new products and technologies from which we do not currently generate revenue, as well as costs related to the ongoing development efforts for Microsoft Dynamics AX. In 2007, we entered into a Software Development and License Agreement, which provided for a strategic alliance with Microsoft Corporation ("Microsoft") to jointly develop core public sector functionality for Microsoft Dynamics AX to address the accounting needs of public sector organizations worldwide. This agreement and subsequent amendments granted Microsoft intellectual property rights in the software code provided and developed by Tyler into Microsoft Dynamics AX products to be marketed and sold outside of the public sector in exchange for reimbursement payments to partially offset the research and development costs and royalties on direct and indirect public-sector sales worldwide of the solutions co-developed under this arrangement. In addition, Tyler agreed to commit certain resources to the development of the next version of Dynamics AX. Tyler also receives software and maintenance royalties on direct and indirect public-sector sales worldwide of the solutions co-developed under this arrangement.

In 2014, research and development expense increased 11% compared to 2013 due to annual wage adjustments and efforts to maintain our competitive position. We expect that research and development expense will increase in 2015 at a lower rate than our expected revenue growth.

## 2013 Compared to 2012

### Revenues

#### Software licenses and royalties.

The following table sets forth a comparison of our software licenses and royalties revenue for the years ended December 31:

(\$ in thousands)	2013	2012	Change	
			\$	%
ESS	\$ 38,774	\$ 32,060	\$ 6,714	21 %
ATSS	2,067	1,868	199	11
Total software licenses and royalties revenue	\$ 40,841	\$ 33,928	\$ 6,913	20 %

In 2012, we acquired two companies which provide financial and human capital management software solutions to the K-12 education market and one company that provides enterprise permitting, land management, licensing and regulatory software solutions to government agencies. Excluding the impact of acquisitions, total software licenses and royalties revenue increased 12% compared to 2012. Approximately half of the growth was due to an increase of \$2.3 million in royalties on sales of Microsoft Dynamics AX by other Microsoft partners compared to the prior year. Royalty revenue is dependent upon sales volume from Microsoft partners, as well as the timing of maintenance renewals, and can vary substantially from period to period. Software license revenues also grew 5% mainly due to increased investments in product development over the past few years. However, software license growth was reduced somewhat because of a growing number of clients choosing our subscription-based options, rather than purchasing the software under a traditional perpetual software license arrangement. We had 100 new software clients that entered into subscription-based arrangements in 2013 compared to 76 new clients in 2012.

#### Subscriptions.

The following table sets forth a comparison of our subscriptions revenue for the years ended December 31:

(\$ in thousands)	2013	2012	Change	
			\$	%
ESS	\$ 59,070	\$ 43,319	\$ 15,751	36 %
ATSS	2,794	1,299	1,495	115
Total subscriptions revenue	\$ 61,864	\$ 44,618	\$ 17,246	39 %

Excluding the impact of acquisitions, subscription-based services revenue increased 37% compared to 2012. New SaaS clients as well as existing clients who converted to our SaaS model provided the majority of the subscription-based revenue increase. In 2013, we added 100 new clients and 63 existing clients elected to convert to our SaaS model. E-filing services also contributed approximately \$5.0 million of the subscription revenue increase. E-filing revenue included \$3.8 million related to a new contract with the Texas Office of Court Administration for our Odyssey File and Serve e-filing system for Texas courts, which was implemented in September 2013.

#### Software services.

The following table sets forth a comparison of our software services revenue for the years ended December 31:

(\$ in thousands)	2013	2012	Change	
			\$	%
ESS	\$ 85,459	\$ 76,103	\$ 9,356	12 %
ATSS	7,808	7,305	503	7
Total software services revenue	\$ 93,267	\$ 83,408	\$ 9,859	12 %

Excluding the impact of acquisitions, software services increased 7% compared to 2012. The increase is attributable to growth in software license activity, as well as contract arrangements that included more programming and other services.

startup costs in 2013 for which there were very limited related revenue. Excluding the limited revenue and costs incurred in connection with implementing eFileTexas.gov in 2013, our software services, maintenance and subscription services gross margin would have been approximately 42.8%. Our implementation and support staff increased by 202 employees since 2012. Most of these additions occurred mid-to late 2013.

*Appraisal services.* The appraisal services gross margin declined slightly compared to 2012. A high proportion of the costs of appraisal services revenue are variable, as we often hire temporary employees to assist in appraisal projects, whose term of employment generally ends with the projects' completion.

Our blended gross margin for 2013 increased 0.2% from 2012 mainly due to higher royalty revenue and also benefited from a product mix that included slightly higher proprietary software revenues than third-party software. Costs incurred related to our implementation of e-FileTexas.gov with minimal related revenues as well as increased hiring of implementation and support staff in order to expand our capacity to implement our contract backlog offset some of the positive impact of higher royalty and proprietary software revenue.

#### Selling, General and Administrative Expenses

The following table sets forth a comparison of our SG&A expenses for the following years ended December 31:

(\$ in thousands)	2013	2012	Change	
			\$	%
Selling, general and administrative expenses	\$ 98,289	\$ 86,706	\$ 11,583	13 %

SG&A as a percentage of revenues was 23.6% in 2013 compared to 23.9% in 2012. Excluding costs from acquisitions, almost half of the SG&A expense increase is due to increased stock compensation expense resulting from increases in our stock price and higher payroll taxes associated with increased stock option exercise activity. Commission expense has also increased compared to the prior year periods due to higher sales.

#### Research and Development Expense

The following table sets forth a comparison of our research and development expense for the years ended December 31:

(\$ in thousands)	2013	2012	Change	
			\$	%
Research and development expense	\$ 23,269	\$ 20,140	\$ 3,129	16 %

Our research and development expense increased \$3.1 million in 2013 compared to 2012. In 2013, we did not have any research and development expense offsets earned under the terms of our agreement with Microsoft compared to \$1.0 million in research and development expense offsets in 2012.

#### Amortization of Customer and Trade Name Intangibles

The following table sets forth a comparison of amortization of customer and trade name intangibles for the years ended December 31:

(\$ in thousands)	2013	2012	Change	
			\$	%
Amortization of customer and trade name intangibles	\$ 4,517	\$ 4,279	\$ 238	6 %

customer base and growth in subscription-based arrangements. These increases in liabilities were offset somewhat by higher accounts receivable balances from annual software maintenance billings and prepaid commissions on large contracts.

In general, changes in the balance of deferred revenue are cyclical and primarily driven by the timing of our maintenance renewal billings. Our renewal dates occur throughout the year but our heaviest renewal cycles occur in the second and fourth quarters.

At December 31, 2014, our days sales outstanding ("DSOs") were 80 days compared to DSOs of 87 days at December 31, 2013. DSOs are calculated based on accounts receivable (excluding long-term receivables, but including unbilled receivables) divided by the quotient of annualized quarterly revenues divided by 360 days.

Investing activities used cash of \$11.6 million in 2014 compared to \$25.7 million in 2013. In 2014, we completed the acquisition of SoftCode, Inc. for a purchase price of \$3.5 million in cash, of which \$325,000 was accrued at December 31, 2014, and 16,540 shares of Tyler common stock valued at \$1.5 million. The remaining use of cash in 2014 was comprised primarily of capital expenditures related to computer equipment, furniture and fixtures in support of internal growth, particularly with respect to growth in our cloud-based offerings. Investing activities in 2013 and 2012 included \$20.3 million and \$2.3 million, respectively, paid in connection with the construction of an office building in Plano, Texas. These expenditures were funded from cash generated from operations and cash on hand.

In 2012, we also purchased four companies for a combined cash purchase price of \$25.7 million and paid \$2.6 million, which was comprised of \$1.7 million in cash and land and a building valued at \$900,000 for an office building in Moraine, Ohio. These expenditures were funded from cash generated from operations, cash on hand and borrowings under a revolving credit line.

Financing activities in 2014 provided cash of \$15.4 million compared to \$32.0 million in 2013. Financing activities in 2014 were comprised of collections of \$18.8 million from stock option exercises and contributions from the employee stock purchase plan and \$19.4 million excess tax benefit from exercises of share-based arrangements. These increases were offset somewhat by purchases of 294,000 shares of our common stock for an aggregate purchase price of \$22.8 million. Financing activities in 2013 were comprised of collections of \$21.8 million from stock option exercises and employee stock purchase plan activity and \$28.2 million excess tax benefit from exercises of share-based arrangements, offset partially by \$18.0 million in net payments on our revolving line of credit. Cash used in financing activities in 2012 was mainly comprised of \$42.7 million in payments on our revolving line of credit offset by collections of \$15.1 million from stock option exercises and contributions from the employee stock purchase plan and \$8.8 million excess tax benefit from exercises of share-based arrangements.

The share repurchase program, which was approved by our board of directors, was announced in October 2002, and was amended at various times from 2003 through 2011. As of December 31, 2014, we had remaining authorization to repurchase up to 1.4 million additional shares of our common stock. Our share repurchase program allows us to repurchase shares at our discretion and market conditions influence the timing of the buybacks and the number of shares repurchased, as well as the volume of employee stock option exercises. Share repurchases are generally funded using our existing cash balances and may occur through open market purchases and transactions structured through investment banking institutions, privately negotiated transactions and/or other mechanisms. There is no expiration date specified for the authorization and we intend to repurchase stock under the plan from time to time.

In 2014, we issued 855,000 shares of common stock and received \$14.7 million in aggregate proceeds upon exercise of stock options. In 2013, we issued 1.4 million shares of common stock and received \$18.3 million in aggregate proceeds upon exercise of stock options. In 2012, we issued 1.2 million shares of common stock and received \$12.4 million in aggregate proceeds upon exercise of stock options. In 2014, 2013 and 2012, we received \$4.1 million, \$3.5 million, and \$2.6 million, respectively, from contributions to the Tyler Technologies, Inc. Employee Stock Purchase Plan.

We did not replace our revolving credit line of \$150.0 million that matured on August 11, 2014.

As of December 31, 2014, we had an outstanding \$2.0 million letter of credit, issued by a bank in favor of one of our clients. The letter of credit guarantees our performance under a software contract and expires in 2015. We do not believe this letter of credit will be required to be drawn upon.

We paid income taxes, net of refunds received, of \$10.2 million in 2014, \$9.3 million in 2013, and \$13.1 million in 2012. We experienced significant stock option exercise activity in 2014 that generated \$19.4 million excess tax benefits. Excess tax benefits reduce tax payments but do not significantly reduce the effective tax rate and can result in limitations on other deductions. In 2013 and 2012, excess tax benefits were \$28.2 million and \$8.8 million, respectively.

the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosures. Management, with the participation of the chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. Based on this evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2014.

*Management's Report on Internal Control Over Financial Reporting* — Tyler's management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Securities Exchange Act Rule 13a-15(f). Tyler's internal control over financial reporting is designed to provide reasonable assurance to Tyler's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of Tyler's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework (2013 framework)*. Based on our assessment, we concluded that, as of December 31, 2014, Tyler's internal control over financial reporting was effective based on those criteria.

Tyler's internal control over financial reporting as of December 31, 2014 has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited Tyler's financial statements. Ernst & Young's attestation report on Tyler's internal control over financial reporting appears on page F-1 hereof.

*Changes in Internal Control Over Financial Reporting* — During the quarter ended December 31, 2014, there were no changes in our internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f), that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

# PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as part of this Annual Report:

- (a) (1) The financial statements are filed as part of this Annual Report.

	Page
<u>Reports of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012</u>	F-3
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	F-4
<u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

- (2) Financial statement schedules:

There are no financial statement schedules filed as part of this Annual Report, since the required information is included in the financial statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

- (3) Exhibits:

Certain of the exhibits to this Annual Report are hereby incorporated by reference, as specified:

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Tyler Three, as amended through May 14, 1990, and Certificate of Designation of Series A Junior Participating Preferred Stock (filed as Exhibit 3.1 to our Form 10-Q for the quarter ended June 30, 1990, and incorporated by reference herein).
3.2	Certificate of Amendment to the Restated Certificate of Incorporation (filed as Exhibit 3.1 to our Form 8-K, dated February 19, 1998, and incorporated by reference herein).
3.3	Amended and Restated By-Laws of Tyler Corporation, dated November 4, 1997 (filed as Exhibit 3.3 to our Form 10-K for the year ended December 31, 1997, and incorporated by reference herein).
3.4	Certificate of Amendment dated May 19, 1999 to the Restated Certificate of Incorporation (filed as Exhibit 3.4 to our Form 10-K for the year ended December 31, 2000, and incorporated by reference herein).
4.1	Specimen of Common Stock Certificate (filed as Exhibit 4.1 to our registration statement no. 33-33505 and incorporated by reference herein).
10.1	Form of Indemnification Agreement for directors and officers (filed as Exhibit 10.1 to our Form 10-K for the year ended December 31, 2002 and incorporated by reference herein).
10.2	Tyler Technologies, Inc. 2010 Stock Option Plan effective as of May 13, 2010 (filed as Exhibit 4.1 to our registration statement no. 333-168499 and incorporated by reference herein).
10.3	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and John S. Marr Jr. dated February 5, 2013 (filed as Exhibit 10.3 to our Form 10-K for the year ended December 31, 2012 and incorporated by reference herein).
10.4	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and Dustin R. Womble dated February 5, 2013 (filed as Exhibit 10.4 to our Form 10-K for the year ended December 31, 2012 and incorporated by reference herein).
10.5	Employment and Non-Competition Agreement between Tyler Technologies, Inc. and Brian K. Miller dated February 5, 2013 (filed as Exhibit 10.5 to our Form 10-K for the year ended December 31, 2012 and incorporated by reference herein).



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TYLER TECHNOLOGIES, INC.

Date: February 18, 2015

By: /s/ John S. Marr  
John S. Marr  
Chief Executive Officer and President  
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the registrant and in the capacities and on the dates indicated have signed this report below.

Date: February 18, 2015

By: /s/ John S. Marr  
John S. Marr  
Chief Executive Officer and President  
Director  
(principal executive officer)

Date: February 18, 2015

By: /s/ John M. Yeaman  
John M. Yeaman  
Chairman of the Board

Date: February 18, 2015

By: /s/ Brian K. Miller  
Brian K. Miller  
Executive Vice President and Chief  
Financial Officer  
(principal financial officer)

Date: February 18, 2015

By: /s/ W. Michael Smith  
W. Michael Smith  
Vice President and Chief Accounting Officer  
(principal accounting officer)

Date: February 18, 2015

By: /s/ Donald R. Brattain  
Donald R. Brattain  
Director

Date: February 18, 2015

By: /s/ Glenn A. Carter  
Glenn A. Carter  
Director

Date: February 18, 2015

By: /s/ Brenda A. Cline  
Brenda A. Cline  
Director

Date: February 18, 2015

By: /s/ J. Luther King  
J. Luther King  
Director

Date: February 18, 2015

By: /s/ Dustin R. Womble  
Dustin R. Womble  
Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Tyler Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Tyler Technologies, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tyler Technologies, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tyler Technologies, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 18, 2015 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Dallas, Texas  
February 18, 2015

Tyler Technologies, Inc.  
Consolidated Balance Sheets  
(In thousands, except par value and share amounts)

	December 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 206,167	\$ 78,876
Accounts receivable (less allowance for losses of \$1,725 in 2014 and \$1,113 in 2013)	112,660	106,570
Prepaid expenses	17,851	13,522
Income tax receivable	19	9,721
Other current assets	339	787
Deferred income taxes	9,674	7,759
Total current assets	<u>346,710</u>	<u>217,235</u>
Accounts receivable, long-term portion	1,761	588
Property and equipment, net	65,910	64,844
Other assets:		
Goodwill	124,142	121,011
Other intangibles, net	34,722	38,986
Sundry and other	737	1,824
	<u>\$ 573,982</u>	<u>\$ 444,488</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,119	\$ 2,533
Accrued liabilities	39,508	32,839
Deferred revenue	189,212	156,738
Total current liabilities	<u>232,839</u>	<u>192,110</u>
Deferred income taxes	4,170	6,059
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$10.00 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized; 48,147,969 shares issued in 2014 and 2013	481	481
Additional paid-in capital	201,389	182,176
Accumulated other comprehensive loss, net of tax	(46)	(46)
Retained earnings	261,150	202,210
Treasury stock, at cost; 14,678,782 and 15,309,940 shares in 2014 and 2013, respectively	(126,001)	(138,502)
Total shareholders' equity	<u>336,973</u>	<u>246,319</u>
	<u>\$ 573,982</u>	<u>\$ 444,488</u>

See accompanying notes.

Tyler Technologies, Inc.  
Consolidated Statements of Cash Flows  
For the years ended December 31  
(In thousands)

	2014	2013	2012
Cash flows from operating activities:			
Net income	\$ 58,940	\$ 39,101	\$ 32,994
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	14,605	13,786	12,711
Share-based compensation expense	14,819	11,653	7,411
Provision for losses - accounts receivable	1,897	729	961
Excess tax benefit from exercises of share-based arrangements	(19,402)	(28,207)	(8,764)
Deferred income tax benefit	(3,804)	(1,497)	(215)
Changes in operating assets and liabilities, exclusive of effects of acquired companies:			
Accounts receivable	(8,912)	(7,488)	(6,825)
Income tax receivable	29,117	18,898	7,791
Prepaid expenses and other current assets	(3,696)	(4,154)	110
Accounts payable	1,586	(574)	(369)
Accrued liabilities	6,326	7,655	(530)
Deferred revenue	31,961	16,188	13,393
Net cash provided by operating activities	123,437	66,090	58,668
Cash flows from investing activities:			
Proceeds from sale of investments	808	1,090	75
Cost of acquisitions, net of cash acquired	(3,242)	(181)	(25,680)
Additions to property and equipment	(9,343)	(26,858)	(9,102)
Decrease (increase) in other	222	291	(29)
Net cash used by investing activities	(11,555)	(25,658)	(34,736)
Cash flows from financing activities:			
Purchase of treasury shares	(22,817)	—	—
Contributions from employee stock purchase plan	4,144	3,542	2,641
Proceeds from exercise of stock options	14,680	18,289	12,443
Decrease in net borrowings on revolving line of credit	—	(18,000)	(42,700)
Excess tax benefit from exercises of share-based arrangements	19,402	28,207	8,764
Net cash provided (used) by financing activities	15,409	32,038	(18,852)
Net increase in cash and cash equivalents	127,291	72,470	5,080
Cash and cash equivalents at beginning of period	78,876	6,406	1,326
Cash and cash equivalents at end of period	\$ 206,167	\$ 78,876	\$ 6,406

See accompanying notes.

## Software Licenses and Royalties

We recognize the revenue allocable to software licenses and specified upgrades upon delivery of the software product or upgrade to the customer, unless the fee is not fixed or determinable or collectability is not probable. If the fee is not fixed or determinable, software license revenue is generally recognized as payments become due from the customer. If collectability is not considered probable, revenue is recognized when the fee is collected. Arrangements that include software services, such as training or installation, are evaluated to determine whether those services are essential to the product's functionality.

A majority of our software arrangements involve "off-the-shelf" software. We consider software to be off-the-shelf software if it can be added to an arrangement with minor changes in the underlying code and it can be used by the customer for the customer's purpose upon installation. For off-the-shelf software arrangements, we recognize the software license fee as revenue after delivery has occurred, customer acceptance is reasonably assured, that portion of the fee represents a non-refundable enforceable claim and is probable of collection, and the remaining services such as training are not considered essential to the product's functionality.

For arrangements that involve significant production, modification or customization of the software, or where software services are otherwise considered essential, we recognize revenue using contract accounting and apply the provisions of the Construction – Type and Production – Type Contracts as discussed in ASC 605-35, Multiple Elements Arrangements. We generally use the percentage-of-completion method to recognize revenue from these arrangements. We measure progress-to-completion primarily using labor hours incurred, or value added. The percentage-of-completion method generally results in the recognition of reasonably consistent profit margins over the life of a contract because we have the ability to produce reasonably dependable estimates of contract billings and contract costs. We use the level of profit margin that is most likely to occur on a contract. If the most likely profit margin cannot be precisely determined, the lowest probable level of profit in the range of estimates is used until the results can be estimated more precisely. These arrangements are often implemented over an extended time period and occasionally require us to revise total cost estimates. Amounts recognized in revenue are calculated using the progress-to-completion measurement after giving effect to any changes in our cost estimates. Changes to total estimated contract costs, if any, are recorded in the period they are determined. Estimated losses on uncompleted contracts are recorded in the period in which we first determine that a loss is apparent. For arrangements that include new product releases for which it is difficult to estimate final profitability except to assume that no loss will ultimately be incurred, we recognize revenue under the completed contract method. Under the completed contract method, revenue is recognized only when a contract is completed or substantially complete. Historically these amounts have been immaterial.

We recognize royalty revenue when earned under the terms of our third-party royalty arrangements, provided the fees are considered fixed or determinable and realization of payment is probable. Currently, our third-party royalties are variable in nature and such amounts are not considered fixed or determinable until we receive notice of amounts earned. Typically, we receive notice of royalty revenues earned on a quarterly basis in the quarter immediately following the royalty reporting period.

## Software Services:

Some of our software arrangements include services considered essential for the customer to use the software for the customer's purposes. For these software arrangements, both the software license revenue and the services revenue are recognized as the services are performed using the percentage-of-completion contract accounting method. When software services are not considered essential, the fee allocable to the service element is recognized as revenue as we perform the services.

## Computer Hardware Equipment

Revenue allocable to computer hardware equipment is recognized when we deliver the equipment and collection is probable.

## Post Contract Customer Support

Our customers generally enter into PCS agreements when they purchase our software licenses. PCS includes telephone support, bug fixes, and rights to upgrades on a when-and-if available basis. Our PCS agreements are typically renewable annually. Revenue allocated to PCS is recognized on a straight-line basis over the period the PCS is provided. All significant costs and expenses associated with PCS are expensed as incurred.

## Subscription-Based Services:

Subscription-based services consist of revenues derived from SaaS arrangements, which utilize the Tyler private cloud, and electronic filing transactions.

For SaaS arrangements, we evaluate whether the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and whether the customer can feasibly maintain the software on the customer's hardware or enter into another arrangement with a third-party to host the software. In cases where the customer has the contractual right to take possession of our software at any time during the hosting period without significant penalty and the customer can feasibly

Prepaid expenses and other current assets include direct and incremental costs such as commissions associated with arrangements for which revenue recognition has been deferred. Such costs are expensed at the time the related revenue is recognized.

#### USE OF ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the application of the percentage-of-completion and proportional performance methods of revenue recognition, the carrying amount and estimated useful lives of intangible assets, determination of share-based compensation expense and valuation allowance for receivables. Actual results could differ from estimates.

#### PROPERTY AND EQUIPMENT, NET

Property, equipment and purchased software are recorded at original cost and increased by the cost of any significant improvements after purchase. We expense maintenance and repairs when incurred. Depreciation and amortization is calculated using the straight-line method over the shorter of the asset's estimated useful life or the term of the lease in the case of leasehold improvements. For income tax purposes, we use accelerated depreciation methods as allowed by tax laws.

#### RESEARCH AND DEVELOPMENT COSTS

We expensed research and development costs of \$25.7 million during 2014, \$23.3 million during 2013, and \$20.1 million during 2012. We reduced our research and development expense by approximately \$1.0 million in 2012, which was the amount earned under the terms of a strategic alliance with a development partner.

#### INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred taxes arise because of different treatment between financial statement accounting and tax accounting, known as "temporary differences." We record the tax effect of these temporary differences as "deferred tax assets" (generally items that can be used as a tax deduction or credit in the future periods) and "deferred tax liabilities" (generally items that we received a tax deduction for, which have not yet been recorded in the income statement). The deferred tax assets and liabilities are measured using enacted tax rules and laws that are expected to be in effect when the temporary differences are expected to be recovered or settled. A valuation allowance would be established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

#### SHARE-BASED COMPENSATION

We have a stock option plan that provides for the grant of stock options to key employees, directors and non-employee consultants. Stock options generally vest after three to six years of continuous service from the date of grant and have a contractual term of 10 years. We account for share-based compensation utilizing the fair value recognition pursuant to ASC 718, Stock Compensation. See Note 9 – "Share-Based Compensation" for further information.

#### GOODWILL AND OTHER INTANGIBLE ASSETS

##### *Goodwill*

Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including identifiable intangible assets, in connection with our business combinations. Upon acquisition, goodwill is assigned to the reporting unit that is expected to benefit from the synergies of the business combination, which is the reporting unit to which the related acquired technology is assigned. A reporting unit is the operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by executive management. We assess goodwill for impairment annually as of April, or more frequently whenever events or changes in circumstances indicate its carrying value may not be recoverable.

When testing goodwill for impairment quantitatively, we first compare the fair value of each reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, a second step is performed to measure the amount of potential impairment. In the second step, we compare the implied fair value of reporting unit goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized. The fair values calculated in our impairment tests are determined using discounted cash flow models involving several assumptions. The assumptions that are used are based upon what we believe a hypothetical marketplace participant would use in estimating fair value. We evaluate the reasonableness of the fair value calculations of our reporting units by comparing the total of the fair value of all of our reporting units to our total market capitalization.

The following table summarizes the changes in the allowances for doubtful accounts and sales adjustments:

	Years ended December 31,		
	2014	2013	2012
Balance at beginning of year	\$ 1,113	\$ 1,621	\$ 990
Provisions for losses - accounts receivable	1,897	729	961
Deductions for accounts charged off or credits issued	(1,285)	(1,237)	(330)
Balance at end of year	\$ 1,725	\$ 1,113	\$ 1,621

The termination clauses in most of our contracts provide for the payment for the value of products delivered or services performed in the event of early termination. Our property appraisal outsourcing service contracts can range up to three years and, in a few cases, as long as five years, in duration. In connection with these contracts, as well as certain software service contracts, we may perform work prior to when the software and services are billable and/or payable pursuant to the contract. We have historically recorded such unbilled receivables (costs and estimated profit in excess of billings) in connection with (1) property appraisal services contracts accounted for using proportional performance accounting in which the revenue is earned based upon activities performed in one accounting period but the billing normally occurs subsequently and may span another accounting period; (2) software services contracts accounted for using the percentage-of-completion method of revenue recognition using labor hours as a measure of progress towards completion in which the services are performed in one accounting period but the billing for the software element of the arrangement may be based upon the specific phase of the implementation; (3) software revenue for which we have objective evidence that the customer-specified objective criteria has been met but the billing has not yet been submitted to the customer; (4) some of our contracts provide for an amount to be withheld from a progress billing (generally between 5% and 20% retention) until final and satisfactory project completion is achieved; and (5) in a limited number of cases, we may grant extended payment terms generally to existing customers with whom we have a long-term relationship and favorable collection history.

In connection with this activity, we have recorded unbilled receivables of \$14.8 million and \$10.8 million at December 31, 2014 and 2013, respectively. We also have recorded retention receivables of \$4.7 million and \$2.6 million at December 31, 2014 and 2013, respectively, and these retentions become payable upon the completion of the contract or completion of our fieldwork and formal hearings. Unbilled receivables and retention receivables expected to be collected in excess of one year have been included with accounts receivable, long-term portion in the accompanying consolidated balance sheets.

## INDEMNIFICATION

Most of our software license agreements indemnify our customers in the event that the software sold infringes upon the intellectual property rights of a third-party. These agreements typically provide that in such event we will either modify or replace the software so that it becomes non-infringing or procure for the customer the right to use the software. We have recorded no liability associated with these indemnifications, as we are not aware of any pending or threatened infringement actions that are possible losses. We believe the estimated fair value of these intellectual property indemnification clauses is minimal.

We have also agreed to indemnify our officers and board members if they are named or threatened to be named as a party to any proceeding by reason of the fact that they acted in such capacity. We maintain directors' and officers' insurance coverage to protect against any such losses. We have recorded no liability associated with these indemnifications. Because of our insurance coverage, we believe the estimated fair value of these indemnification agreements is minimal.

## RECLASSIFICATIONS

Certain amounts for previous years have been reclassified to conform to the current year presentation.

## (2) ACQUISITIONS

### 2014

On August 29, 2014, we acquired all of the capital stock of SoftCode, Inc. ("SoftCode"), which develops and sells civil process management software, typically to county sheriff departments. The purchase price, net of cash acquired of \$71,000, was \$3.5 million in cash, of which \$325,000 was accrued at December 31, 2014, and 16,540 shares of Tyler common stock valued at \$1.5 million, based on the stock price on the acquisition date. In December 2014, we finalized the purchase price allocation, which resulted in additional goodwill of \$125,000. As a result, we acquired total tangible assets of approximately \$301,000 and assumed liabilities of approximately \$531,000. We have recorded total goodwill of approximately \$3.1 million, all of which is expected to be deductible for tax purposes, and other intangible assets of approximately \$2.1 million. The \$2.1 million of intangible assets is attributable to customer relationships, acquired software and trade name and will be amortized over a weighted average period of approximately eight years. We believe this transaction will broaden our courts and justice software solutions with a tracking and management

#### (4) GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangible assets and related accumulated amortization consists of the following at December 31:

	2014	2013
Gross carrying amount of acquisition intangibles:		
Customer related intangibles	\$ 61,325	\$ 60,547
Acquired software	33,103	32,003
Trade name	3,331	3,109
Lease acquired		1,387
	97,759	97,046
Accumulated amortization	(63,037)	(58,060)
Total intangibles, net	\$ 34,722	\$ 38,986

Total amortization expense for intangibles was \$6.4 million in 2014, \$6.8 million in 2013, and \$6.5 million during 2012.

The allocation of acquisition intangible assets is summarized in the following table:

	December 31, 2014			December 31, 2013		
	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization	Gross Carrying Amount	Weighted Average Amortization Period	Accumulated Amortization
Non-amortizable intangibles:						
Goodwill	\$ 124,142	—	\$ —	\$ 121,011	—	\$ —
Amortizable intangibles:						
Customer related intangibles	61,325	15 years	33,194	60,547	15 years	28,864
Acquired software	33,103	5 years	28,441	32,003	5 years	26,584
Trade name	3,331	15 years	1,402	3,109	15 years	1,225
Lease acquired	—	—	—	1,387	5 years	1,387

The changes in the carrying amount of goodwill for the two years ended December 31, 2014 are as follows:

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Total
Balance as of December 31, 2012 and December 31, 2013	\$ 114,454	\$ 6,557	\$ 121,011
Goodwill acquired during 2014 related to the purchase of SoftCode	3,131	—	3,131
Balance as of December 31, 2014	\$ 117,585	\$ 6,557	\$ 124,142

Estimated annual amortization expense relating to acquisition intangibles, including acquired software for which the amortization expense is recorded as cost of revenues for the next five years is as follows:

2015	\$ 6,430
2016	6,331
2017	5,353
2018	4,677
2019	3,248



In 2014, we utilized approximately \$650,000 of net operating loss carryforwards for federal income tax reporting purposes. The full amount of the net operating loss utilized was attributable to excess tax benefits related to share-based arrangements for which authoritative guidance prohibited the recognition of a deferred tax asset in 2013. In 2014, this tax benefit was accounted for as an increase to shareholders' equity and a reduction in income tax payable. In total, we recognized approximately \$19.4 million and \$28.2 million of excess tax benefits related to share-based arrangements in 2014 and 2013, respectively, as a credit to shareholders' equity and a reduction in income taxes payable.

Although realization is not assured, we believe it is more likely than not that all the deferred tax assets at December 31, 2014 and 2013 will be realized. Accordingly, we believe no valuation allowance is required for the deferred tax assets. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of reversing taxable temporary differences are revised.

No reserves for uncertain income tax positions have been recorded pursuant to ASC 740-10, Income Taxes.

The Internal Revenue Service ("IRS") is examining our U.S. income tax return for the year 2012. As of February 18, 2015, no significant adjustments have been proposed by the IRS. We are unable to make a reasonable estimate as to when cash settlements, if any, will occur.

We are subject to U.S. federal tax as well as income tax of multiple state and local jurisdictions. We are no longer subject to United States federal income tax examinations for years before 2011. We are no longer subject to state and local income tax examinations by tax authorities for the years before 2010.

We paid income taxes, net of refunds received, of \$10.2 million in 2014, \$9.3 million in 2013, and \$13.1 million in 2012.

## (8) SHAREHOLDERS' EQUITY

The following table details activity in our common stock:

	Years ended December 31,					
	2014		2013		2012	
	Shares	Amount	Shares	Amount	Shares	Amount
Stock option exercises	855	\$ 14,680	1,443	\$ 18,289	1,218	\$ 12,443
Purchases of common stock	(294)	(22,817)	—	—	—	—
Employee stock plan purchases	53	4,144	64	3,542	81	2,641
Shares issued for acquisition	17	1,473	—	—	60	2,815

As of February 18, 2015, we had authorization from our board of directors to repurchase up to 1.4 million additional shares of our common stock.

## (9) SHARE-BASED COMPENSATION

### Share-Based Compensation Plan

We have a stock option plan that provides for the grant of stock options to key employees, directors and non-employee consultants. Stock options generally vest after three to six years of continuous service from the date of grant and have a contractual term of 10 years. Once options become exercisable, the employee can purchase shares of our common stock at the market price on the date we granted the option. We account for share-based compensation utilizing the fair value recognition pursuant to ASC 718, Stock Compensation.

As of December 31, 2014, there were 468,000 shares available for future grants under the plan from the 16.0 million shares previously approved by the stockholders.

### Determining Fair Value of Stock Compensation

**Valuation and Amortization Method.** We estimate the fair value of share-based awards granted using the Black-Scholes option valuation model. We amortize the fair value of all awards on a straight-line basis over the requisite service periods, which are generally the vesting periods.

**Expected Life.** The expected life of awards granted represents the period of time that they are expected to be outstanding. The expected life represents the weighted-average period the stock options are expected to be outstanding based primarily on the options' vesting terms, remaining contractual life and the employees' expected exercise based on historical patterns.

We had unvested options to purchase 3.3 million shares with a weighted average grant date exercise price of \$55.61 as of December 31, 2014 and unvested options to purchase 3.5 million shares with a weighted average grant date exercise price of \$44.55 as of December 31, 2013. As of December 31, 2014, we had \$55.3 million of total unrecognized compensation cost related to unvested options, net of expected forfeitures, which is expected to be amortized over a weighted average amortization period of four years.

Other information pertaining to option activity was as follows during the twelve months ended December 31:

	2014	2013	2012
Weighted average grant-date fair value of stock options granted	\$ 31.32	\$ 23.27	\$ 15.24
Total intrinsic value of stock options exercised	69,768	99,393	40,589

#### Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan ("ESPP") participants may contribute up to 15% of their annual compensation to purchase common shares of Tyler. The purchase price of the shares is equal to 85% of the closing price of Tyler shares on the last day of each quarterly offering period. As of December 31, 2014, there were 940,000 shares available for future grants under the ESPP from the 2.0 million shares previously approved by the stockholders.

#### (10) EARNINGS PER SHARE

Basic earnings and diluted earnings per share data were computed as follows:

	Years Ended December 31,		
	2014	2013	2012
Numerator for basic and diluted earnings per share:			
Net income	\$ 58,940	\$ 39,101	\$ 32,994
Denominator:			
Weighted-average basic common shares outstanding	33,011	31,891	30,327
Assumed conversion of dilutive securities:			
Stock options	2,390	2,699	2,589
Denominator for diluted earnings per share			
- Adjusted weighted-average shares	35,401	34,590	32,916
Earnings per common share:			
Basic	\$ 1.79	\$ 1.23	\$ 1.09
Diluted	\$ 1.66	\$ 1.13	\$ 1.00

Stock options representing the right to purchase common stock of 481,000 shares in 2014, 62,000 shares in 2013, and 463,000 shares in 2012 were not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

#### (11) LEASES

We lease office facilities for use in our operations, as well as transportation, computer and other equipment. We also have an office facility lease agreement with an entity owned by an executive's father and brother. The executive does not have an interest in the entity that leases the property to us and the lease arrangement existed at the time we acquired the business unit that occupies this property. Most of our leases are non-cancelable operating lease agreements and they expire at various dates through 2021. In addition to rent, the leases generally require us to pay taxes, maintenance, insurance and certain other operating expenses.

Rent expense was approximately \$6.7 million in 2014, \$7.5 million in 2013, and \$7.2 million in 2012, which included rent expense associated with related party lease agreements of \$1.7 million in 2014, \$1.7 million in 2013, and \$1.7 million in 2012.

income also includes revenues and expenses related to a company-wide user conference. The accounting policies of the reportable segments are the same as these described in Note 1, "Summary of Significant Accounting Policies."

Segment assets include net accounts receivable, prepaid expenses and other current assets and net property and equipment. Corporate assets consist of cash and investments, prepaid insurance, intangibles associated with acquisitions, deferred income taxes and net property and equipment mainly related to unallocated information and technology assets.

ESS segment capital expenditures in 2013 and 2012 included \$19.6 million, and \$3.0 million, respectively for the construction of a new building and purchase of an existing building and land. ATSS segment capital expenditures in 2012 included \$2.6 million for the purchase of a building and land to support long-term growth.

As of the year ended December 31, 2014

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	\$ 46,047	\$ 3,018	\$ —	\$ 49,065
Subscriptions	84,322	3,526	—	87,848
Software services	104,146	9,675	—	113,821
Maintenance	195,881	16,815	—	212,696
Appraisal services	—	21,802	—	21,802
Hardware and other	5,398	11	2,460	7,869
Intercompany	2,812	—	(2,812)	—
Total revenues	\$ 438,606	\$ 54,847	\$ (352)	\$ 493,101
Depreciation and amortization expense	11,140	866	2,599	14,605
Segment operating income	114,993	11,603	(25,370)	101,226
Capital expenditures	3,644	359	5,446	9,449
Segment assets	\$ 170,369	\$ 16,463	\$ 387,150	\$ 573,982

As of the year ended December 31, 2013

	Enterprise Software Solutions	Appraisal and Tax Software Solutions and Services	Corporate	Totals
Revenues				
Software licenses and royalties	\$ 38,774	\$ 2,067	\$ —	\$ 40,841
Subscriptions	59,070	2,794	—	61,864
Software services	85,459	7,808	—	93,267
Maintenance	175,180	16,540	—	191,720
Appraisal services	—	20,825	—	20,825
Hardware and other	6,342	—	1,784	8,126
Intercompany	2,899	—	(2,899)	—
Total revenues	\$ 367,724	\$ 50,034	\$ (1,115)	\$ 416,643
Depreciation and amortization expense	10,569	1,028	2,189	13,786
Segment operating income	85,045	9,428	(20,750)	73,723
Capital expenditures	22,457	250	3,438	26,145
Segment assets	\$ 161,923	\$ 16,244	\$ 266,321	\$ 444,488

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-168499) pertaining to the Tyler Technologies, Inc. Stock Option Plan and the Registration Statement (Form S-8 No. 333-182318) pertaining to the Tyler Technologies, Inc. Employee Stock Purchase Plan of our reports dated February 18, 2015, with respect to the consolidated financial statements of Tyler Technologies, Inc., and the effectiveness of internal control over financial reporting of Tyler Technologies, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2014.

ERNST &amp; YOUNG LLP

Dallas, Texas  
February 18, 2015

## CERTIFICATIONS

I, Brian K. Miller, certify that:

1. I have reviewed this annual report on Form 10-K of Tyler Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over our financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Tyler and have:
  - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including its divisions, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: February 18, 2015

By: /s/ Brian K. Miller

Brian K. Miller

Executive Vice President and Chief Financial Officer

PCHL2230 V4.5  
LINK TO:

ADVANCED PURCHASING/INVENTORY  
BID TABULATION - VENDOR SUMMARY

09/02/2015 11:46 AM  
PAGE 01 OF 01

BID ID : RQME15000217

S	VENDOR ID	VENDOR NAME	RANK C/I	TOTAL COST	PCT DEV
	232942737	FISHER SCIENTIFIC COMPANY, LLC	001 C	1,671.69	
	223336902	THOMAS SCIENTIFIC	002 C	1,956.25	17.00
	911319190	VWR SCIENTIFIC CO	003 C	2,066.96	23.60

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F7-PRIOR PAGE  
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REQUISITION

RQIT15000161 04/SEP/2015

VENDOR:

TYLER TECHNOLOGIES, INC  
12 GOOSE LN

TOLLAND

CT 06084-0000

TEL: (800) 273-8605  
FAX: (860) 872-9526

REQUISITIONER:

IT DEPARTMENT OF INFORMATION TECH  
240 OLD COUNTRY ROAD  
6TH FLOOR  
MINEOLA NY 11501  
S. BARNETT/JOE JACOVINA(1-7732)  
TEL: (516) 571-2233  
FAX: (516) 571-3918

ITEM	DESCRIPTION	QTY	U/M	UNIT COST	TOTAL	
001	920-45 COMPUTER SOFTWARE MAINTENANCE/SUPPORT NASSAU COUNTY, NY CIVILSERVE ANNUAL SUPPORT TERM: 10/25/2011 - 10/24/2012 INVOICE: 020-9630	1.00	EA	38,150.0000	38,150.00	
002	920-45 COMPUTER SOFTWARE MAINTENANCE/SUPPORT NASSAU COUNTY, NY CIVILSERVE ANNUAL SUPPORT TERM: 10/25/2012 - 10/24/2013 INVOICE: 020-9631	1.00	EA	38,150.0000	38,150.00	
003	920-45 COMPUTER SOFTWARE MAINTENANCE/SUPPORT NASSAU COUNTY, NY CIVILSERVE ANNUAL SUPPORT TERM: 10/25/2013 - 10/24/2014 INVOICE: 020-9632	1.00	EA	38,150.0000	38,150.00	

DEPARTMENT OF INFORMATION TECHNOLOGY  
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MINEOLA  
NY 11501

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04/SEP/2015

DEST

#752303920  
TYLER TECHNOLOGIES, INC  
12 GOOSE LN

20/MAY/ 15

LINDA A. MILLS  
TEL: 516 571 4200

TOLLAND  
ATT: PAUL FLYNN  
TEL: 800 273 8605  
FAX: 860 872 9525  
CT 06084-0000

PURCHASE ORDER HAS BEEN CLOSED

001 920-45  
COMPUTER SOFTWARE MAINTENANCE/SUPPORT 1.00 EA 489,315.0000 489,315.00

2015 SAS MAINTENANCE RENEWAL 1/1/2015-12/31/2015	\$267,900.00
2015 ADAPT MAINTENANCE RENEWAL 1/1/2015-12/31/2015	\$229,365.00
ADAPT MAINTENANCE:	=====
TAX BILLING & COLLECTION	\$497,265.00
DELINQUENT TAX	ON-TIME IPAY CREDIT: -\$ 7,950.00
APPEALS MANAGEMENT	=====
EDMS INTERFACE (IDOC)	\$489,315.00
INCLUDES: UPGRADES, NEW ENHANCEMENT RELEASES, HOT BUG FIXES/PATCHES	
MON-FRI 8:00 AM - 5:00 PM TOLL FREE TELEPHONE SUPPORT,	
USER GROUP	

DISCOUNT TERMS: 0% NET 30

TERMS:

THE COUNTY OF NASSAU (HEREINAFTER CALLED THE COUNTY) REPRESENTED BY THE DIRECTOR, OFFICE OF PURCHASING (HEREINAFTER CALLED THE DIRECTOR), AND THE INDIVIDUAL, PARTNERSHIP, JOINT VENTURE OR CORPORATION NAMED ABOVE (HEREINAFTER CALLED THE CONTRACTOR) MUTUALLY AGREE TO PERFORM THIS CONTRACT IN STRICT ACCORDANCE WITH THE GENERAL PROVISIONS ATTACHED HERETO AND THE SPECIFICATIONS, TERMS AND CONDITIONS CONTAINED HEREIN.

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WORK TO BE PERFORMED FOR: IT DEPARTMENT

240 OLD COUNTRY RD

6TH FLOOR

MINEOLA N. Y. 11501

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The Contractor shall comply with all federal, state & local statutory constitutional anti-discrimination provisions. In addition, Local Law No.14-2002, entitled "Participation by, Minority Group Members & Women in Nassau County Contracts", governs all County Contracts as defined by such title & solicitations for bids or proposals for County Contracts. In accordance with Local Law No.14-2002:

(a) The Contractor shall not discriminate against employees or applicants for employment because of race, creed, color, national origin, sex, age, disability or marital status in recruitment, employment, job assignments, promotions, upgradings, demotions, transfers, layoffs, terminations & rates of pay or other forms of compensation. The Contractor will undertake or continue existing programs related to recruitment, employment, job assignments, promotions, upgradings, transfers and rates of pay or other forms of compensation to ensure that minority group members and women are afforded equal employment opportunities without discrimination.

(b) At the request of the County contracting agency, the Contractor shall request each employment agency, labor union or authorized representative of workers with which it has a collective bargaining or other agreement or understanding, to furnish a written statement that such employment agency, union or representative will not discriminate on the basis of race, creed, color, national origin, sex, age, disability or marital status and that such employment agency labor union or representative will affirmatively cooperate in the implementation of the Contractor's obligations herein.

(c) The contractor shall state, in all solicitations or advertisements for employees, that, in the performance of the County Contract, all qualified applicants will be afforded equal employment opportunities without discrimination because of race, creed, color, national

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PURCHASE ORDER HAS BEEN CLOSED

contracting agency has reasonable cause to believe that the existing Best Efforts Checklist may be inaccurate. Within ten working days (10) of any such request by the contracting agency, the Contractor must submit Documentation.

(i) In the case where a request is made by the contracting agency or a Deputy County Executive acting on behalf of the contracting agency, the Contractor must, within two (2) working days of such request, submit evidence to demonstrate that it employed Best Efforts to obtain Certified M/WBE participation through proper documentation.

(j) Award of a County Contract alone shall not be deemed or interpreted as approval of all Contractor's Subcontracts and Contractors fulfillment of Best Efforts to obtain participation by Certified M/WBE's.

(k) A Contractor shall maintain Documentation Demonstrating Best Efforts to Obtain Certified Minority or Women-owned Business Enterprises for a period of six (6) years. Failure to maintain such records shall be deemed failure to make Best Efforts to comply with this Appendix EE, evidence of false certification as M/WBE compliant is considered breach of the County Contract.

(l) The Contractor shall be bound by the provisions of Section 109 of Local Law No.14-2002 providing for the enforcement of violations as follows:

- (a) Upon receipt by the Executive Director of a complaint from a contracting agency that a County Contractor has failed to comply with the provisions of Local Law No.14-2002, This Appendix EE or any other contractual provisions included in furtherance of Local Law No.14-2002, the Executive Director will try to resolve the matter.

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PURCHASE ORDER HAS BEEN CLOSED

M/WBE participation.

Failure to comply with provisions (a) through (m) above, as ultimately determined by the Executive Director, shall be a material breach of the contract constituting grounds for immediate termination. Once a final determination of failure to comply has been reached by the Executive Director, the determination of whether to terminate a contract shall rest with the Deputy County Executive with oversight responsibility for the contracting agency.

Provisions (a), (b) and (c) shall not be binding upon contractors or subcontractors in the performance of work or the provision of services or any other activity that are unrelated, separate, or distinct from the County Contract as expressed by its terms.

The requirements of the provisions (a), (b) and (c) shall not apply to any employment or application for employment outside of this County or solicitations or advertisements therefor or any existing programs of affirmative action regarding employment outside of this County and the effect of contract provisions required by these provisions (a), (b) and (c) shall be so limited.

The Contractor shall include provisions (a), (b) and (c) in every Subcontract in such a manner that these provisions shall be binding upon each Subcontractor as to work in connection with the County Contract.

As used in this Appendix EE the following term meanings shall apply:

"Best Efforts Checklist" shall mean a list signed by the Contractor, listing the procedures it has undertaken to procure Subcontractors in accordance with this Appendix EE.  
"County Contract" shall mean (i) a written agreement or purchase order instrument, providing for a total expenditure in excess of twenty-five thousand dollars (\$25,000), whereby a County

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PURCHASE ORDER HAS BEEN CLOSED

circulation in Nassau County and surrounding areas or having verbally solicited M/WBEs whom the County Contractor reasonably believed might have the qualifications to do the work. A copy of the advertisement, if used, shall be included to demonstrate that it contained language indicating that the County Contractor welcomed bids and quotes from M/WBE Subcontractors. In addition, proof of the date(s) any such advertisements appeared must be included in the Best Effort Documentation. If verbal solicitation is used, a County Contractor's affidavit with a notary's signature and stamp shall be required as part of the documentation.

b. Proof of having provided reasonable time for M/WBE Subcontractors to respond to bid opportunities according to industry norms and standards. A chart outlining the schedule/time frame used to obtain bids from M/WBEs is suggested to be included with the Best Effort Documentation.

c. Proof or affidavit of follow-up of telephone calls with potential M/WBE subcontractors encouraging their participation. Telephone logs indicating such action can be included with the Best Effort Documentation.

d. Proof or affidavit that M/WBE Subcontractors were allowed to review the bid specifications, blue prints and all other bid/RFP related items at no charge to the M/WBEs, other than reasonable documentation costs incurred by the County Contractor that are passed onto the M/WBE.

e. Proof or affidavit that sufficient time prior to making award was allowed for M/WBEs to participate effectively, to the extent practicable given the time frame of the County Contract.

f. Proof or affidavit that negotiations were held in Best Efforts

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PURCHASE ORDER HAS BEEN CLOSED

to fulfill its obligations to provide services to the County pursuant to a county contract. Subcontractor shall not include a supplier of materials to a contractor who has contracted to provide goods but no services to the County, nor a supplier of incidental materials to a contractor, such as office supplies, tools and other items of nominal cost that are utilized in the performance of a service contract.

Provisions requiring contractors to retain or submit documentation of best efforts to utilize certified subcontractors and requiring Department head approval prior to subcontracting shall not apply to inter-governmental agreements. In addition, the tracking of expenditures of County dollars by not-for-profit corporations, other municipalities, States, or the federal government is not required. Contractor shall retain complete and accurate records and documents related to this Agreement for six (6) years following the later of termination or final payment. Such records shall at all times be available for audit and inspection by the County.

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Governing Law - Consent to Jurisdiction and Venue; Governing Law. Unless otherwise specified in this Agreement or required by Law, exclusive original jurisdiction for all claims or actions with respect to this Agreement shall be in the Supreme Court in Nassau County in New York State and the parties expressly waive any objections to the same on any grounds, including venue and forum non conveniens. This Agreement is intended as a contract under, and shall be governed and construed in accordance with, the Laws of New York State, without regard to the conflict of laws provisions thereof.

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AUTHORITY: NEW YORK STATE COMPTROLLER'S OPINION 93-67, AND ATTACHED

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